

**Breckenridge Community School District**

**Financial Statements  
With Supplemental Information  
*June 30, 2008***



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Breckenridge Community School District  
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## Independent Auditor's Report

Breckenridge Community School District  
Breckenridge, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breckenridge Community School District (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants  
October 10, 2008

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**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**



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MANAGEMENT DISCUSSION AND ANALYSIS  
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## GENERAL INFORMATION

Breckenridge Community Schools currently operates one elementary school, one middle school, one high school, and one alternative education school. The school district's 2007-08 September enrollment was 963 students. Breckenridge Community Schools employs a staff of 58 teachers, 4 administrators, and 54 support personnel.

The Board of Education consists of seven members who are elected at large for four-year overlapping terms. The Board annually elects a President, Vice-President, Treasurer and Secretary. The Board is responsible for the selection and appointment of the Superintendent of Schools. The Board meets as a single body to set or amend policy, develop long-range educational goals and act upon recommendations of the Superintendent of Schools. The Board is also responsible for adopting and periodically amending the operating budget and evaluating school programs in accordance with governing laws.

## USING THIS ANNUAL REPORT

The discussion and analysis of Breckenridge Community Schools' financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2008. The intent of this report is to provide a look at the performance of the district as a whole, and includes financial statements, notes to the financial statements, and budgetary information. In addition, this analysis will show comparative data from the prior 2006-07 school year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### *District-wide Financial Statements*

The district-wide financial statements are full accrual basis statements and provide information about the district's overall financial status. They are used to help determine the condition of the district as the result of the year's activities. The *Statement of Net Assets* reports all of the district's assets and liabilities, both short-term and long-term, regardless of their availability. Capital assets and long-term obligations of the district are reported in this statement. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. The two district-wide statements report the district's net assets and how they have changed. Net assets (the difference between the district's assets and liabilities) are one way to measure the district's financial condition. Over time, increases or decreases in the district's net assets are an indicator of whether its financial position

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is improving or deteriorating, respectively. However, it is important to note that to assess the district's overall position; you need to consider additional non-financial factors such as changes in the district's property base, the quality of education provided, and the condition of the district's buildings.

In the district-wide statements, the district's activities are classified as *governmental activities*. This includes most of the district's basic services such as regular and special education, food service, athletics, transportation, and administration. These activities are financed mostly by state aid, federal aid, and property taxes.

#### *Fund Financial Statements*

The district's fund financial statements provide detailed information about the most significant funds, and are comparable to prior year financial statements. The fund level statements are reported on a modified accrual basis, which means that only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources. The fund statements are formatted to meet the requirements of the Michigan Department of Education's "Accounting Manual". Major instructional and instructional support activities are reported in the General Fund. Other activities are reported in their relevant funds including; Special Revenue Funds for Food Service and Athletics, Debt Service, and Fiduciary Funds.

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The net assets of the district at June 30, 2008 were \$675,317 and are shown in the following *Statement of Net Assets*. The largest portion of the District's net assets reflects investment in capital assets (buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The district uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the district's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations.

The results of this year's operations for the District as a whole are reported in the following *Statement of Activities*, which shows the changes in net assets for fiscal year 2008. The district experienced an increase in net assets. The main reasons for the

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increase in net assets were decreases in the instruction expenses and an increase in cash and cash equivalents.

A substantial portion of the district's revenues is received from State sources. This means that the financial stability of the district rests primarily with the economic health of the State of Michigan. Figure 1 depicts the breakdown of the sources of revenue for the district.

*Figure 1*

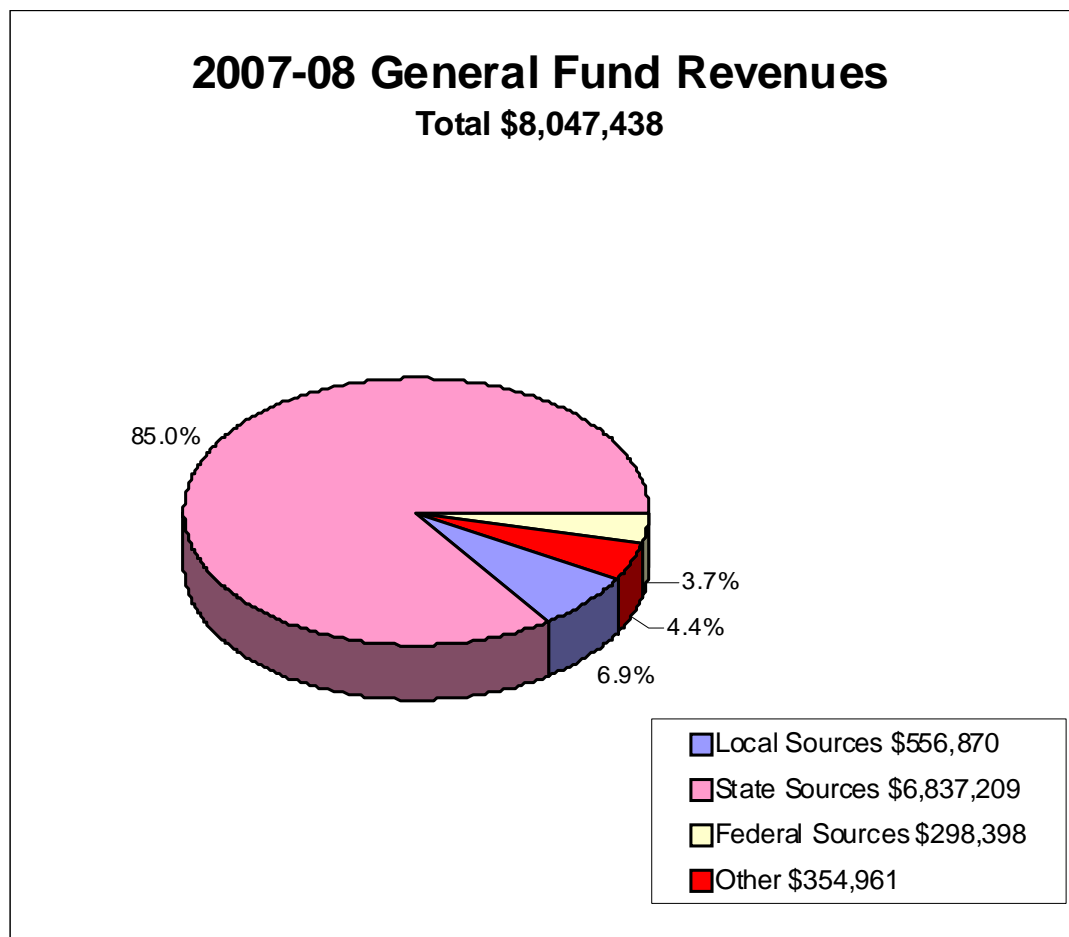


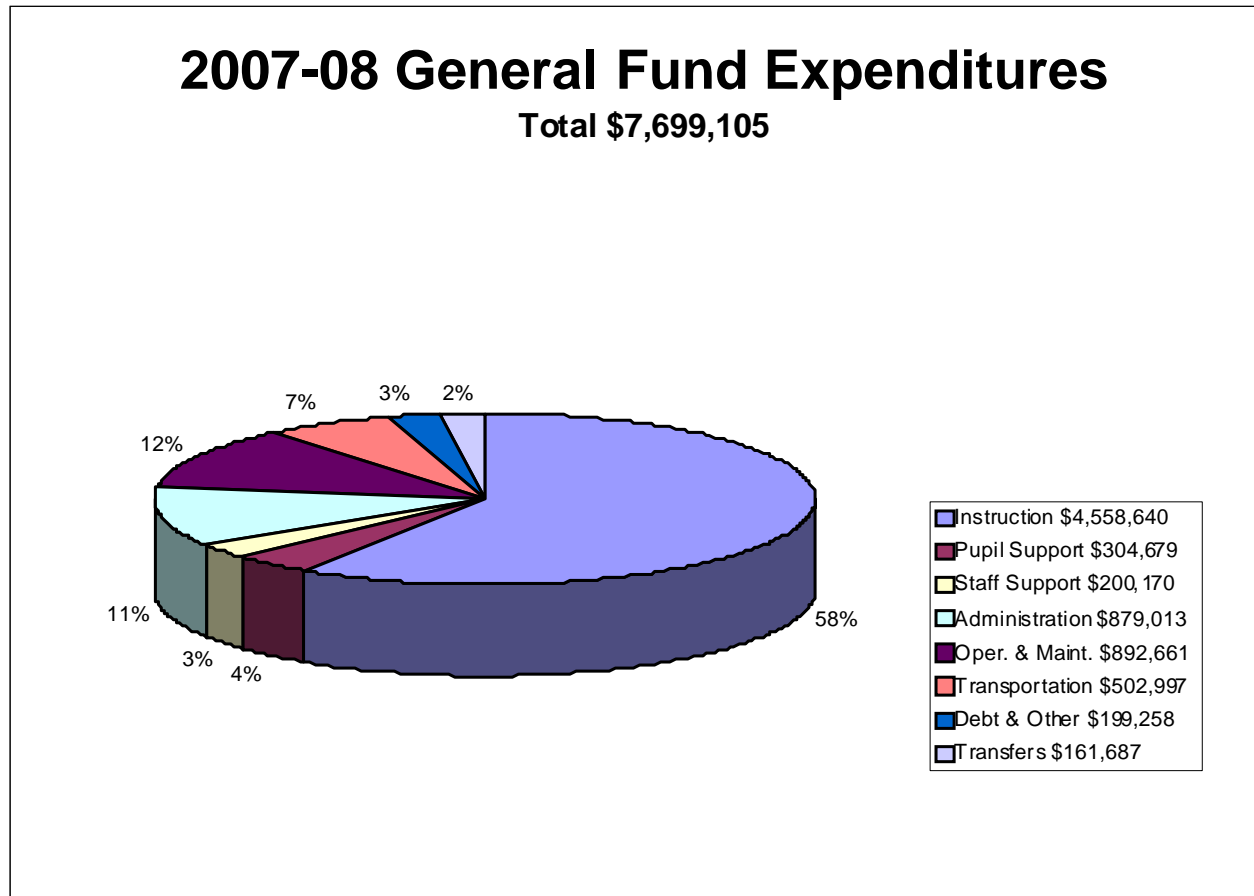
Figure 2 depicts how the district's resources are spent. Instructional services comprise most of the district's expenditures, while 11% went to administrative, 12%

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went to operation and maintenance, 6% was spent for transportation. The final 12% was spent on other support services.

*Figure 2*



## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the district as a whole is reflected in its governmental funds as well. The combined governmental funds equity increased by 86.18% during the 2007-08 school year. The primary reasons for this change are as follows:



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General Fund

The district added \$348,333 to its fund equity and was still able to maintain programs and keep class sizes reasonable. The result is a 6.40% fund equity at year-end.

Debt Service

The fund equity decreased by \$75,074. The main reason for the decrease was the bonds being refunded and using part of the fund equity to pay down the balance.

Special Revenue

The fund equity increased by \$24,181 to leave it with a fund balance of \$34,388. The fund equity is 14.26%. The main areas for the increase are the number of lunches sold and the amount of federal reimbursement received.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Uniform Budget Act of the State of Michigan requires that the local Board of Education adopt an original budget for the upcoming fiscal year by July 1<sup>st</sup>. As a matter of practice, the district amends its budget once or twice during the fiscal year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the significant changes in the budget during the year.

Changes in Revenues

Local revenues were adjusted to reflect changes in property taxes and the investment interest. State revenues were adjusted to reflect changes in the State aid foundation, special education and Young 4's payments. Federal revenues were adjusted to the amount of expenditures.

Changes in Expenditures

Expenditures were adjusted due to a reduction in the retirement percentage, changes to the health insurance plan, reduction in students participating in the vocational program and a reduction in the interest on the Municipal Bond Authority Note.

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## CAPITAL ASSET AND DEBT ADMINISTRATION

### *Capital Assets*

At June 30, 2008, Breckenridge Community Schools had \$4,825,618 (net of depreciation) invested in a broad range of capital assets, including buildings and improvements, equipment, and vehicles.

### *Debt*

At June 30, 2008, Breckenridge Community Schools had \$4,860,425 in long-term debt. The debt consisted of the following:

Compensated Absences	207,773
Commercial Controls	174,930
2008 Bonds	4,055,000
Retirement Incentive	120,000
MMNET Loans	172,723
Durant Bonds	89,785
Accrued Interest LT	40,215

## STATE ECONOMIC AND LOCAL FACTORS

One of the most significant factors facing Breckenridge Community Schools is the economic condition of the State of Michigan. With state funding the primary source of revenue, the district monitors the state's periodic revenue-estimating conference in order to project revenue for the upcoming fiscal year's budget. In addition, local student enrollment is another revenue producing factor that the district monitors. The state foundation is based on a blended student count. This count is taken in September and February of each fiscal year. The blended count consists of 75% of September's count and 25% of the February count. In addition to the state required count days, the district conducts monthly enrollment updates in order to monitor this important revenue source.

For budgeting purposes, an estimated student count is used, based on the district's enrollment history.

The budget prepared for the 2008-09 school year was based on an estimated increase of \$100 in the foundation allowance, and an estimated reduction in student enrollment.

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REQUEST FOR INFORMATION

This financial report is designed to provide our stakeholders with a general overview of the district's finances and to show the district's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to:

Breckenridge Community Schools  
Central Office  
700 Wright Street  
Breckenridge, MI 48615

**DISTRICT-WIDE  
FINANCIAL STATEMENTS**



Breckenridge Community School District  
Statement of Net Assets  
June 30, 2008 and 2007

	2008	2007
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,408,310	\$ 1,143,977
Accounts receivable	9,967	613
Due from other governmental units	1,290,655	1,241,293
Inventory	12,222	11,881
Prepaid expenses	80,521	161,506
Total current assets	2,801,674	2,559,270
Noncurrent assets		
Deferred charges		
Bond issuance costs less accumulated amortization	109,399	-
Capital assets less accumulated depreciation	4,825,618	4,783,942
Total noncurrent assets	4,935,017	4,783,942
Total assets	7,736,692	7,343,212
<b>Liabilities</b>		
Current liabilities		
Accounts payable	137,733	115,168
Due to agency fund	654	38,927
Accrued expenses	20,151	310,158
Salaries payable	309,494	316,161
Accrued interest	84,536	96,062
Payroll deductions and other withholdings	197,765	66,443
Short-term note payable	1,400,000	1,300,000
Current portion of retirement incentive	50,000	98,935
Current portion of long-term bonds payable	368,463	148,618
Current portion of long-term loans payable	55,779	29,110
Total current liabilities	2,624,575	2,519,582
Noncurrent liabilities		
Bonds payable	3,776,322	4,214,785
Loans payable	291,874	172,723
Compensated absences	207,773	197,632
Premium on bonds less accumulated amortization	90,831	-
Retirement incentive	70,000	120,000
Total noncurrent liabilities	4,436,800	4,705,140
Total liabilities	7,061,375	7,224,722
<b>Net assets</b>		
Invested in capital assets, net of related debt	333,180	119,771
Restricted for:		
Debt service	124,541	199,615
Athletics	141	-
Food service	34,388	10,207
Unrestricted	183,067	(211,103)
Total net assets	\$ 675,317	\$ 118,490

See accompanying notes to the financial statements.

Breckenridge Community School District  
Statement of Activities  
For the Year Ended June 30, 2008, with Comparative Data

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2007
		Charges for Services	Operating Grants and Contributions		
<b>Governmental activities:</b>					
Instruction	\$ 4,285,172	\$ -	\$ 1,080,711	\$ (3,204,461)	\$ (4,042,283)
Support services	2,635,825	-	-	(2,635,825)	(2,643,749)
Food service	241,219	86,852	177,217	22,851	32,097
Athletics	203,745	42,198	-	(161,546)	(121,077)
Community services	8,584	8,176	-	(408)	(17,307)
Interest and fees on long-term debt	532,699	-	-	(532,699)	(342,843)
Other expenditures	162,635	-	-	(162,635)	-
Amortization - unallocated	241	-	-	(241)	-
Depreciation - unallocated	241,933	-	-	(241,933)	(249,621)
Total governmental activities	<u>\$ 8,312,052</u>	<u>\$ 137,227</u>	<u>\$ 1,257,929</u>	(6,916,896)	(7,384,783)
<b>General revenues:</b>					
Property taxes				979,718	942,476
State sources				6,356,294	6,613,264
Unrestricted interest and investment earnings				28,337	24,059
Restricted interest and investment earnings				1,572	2,278
Miscellaneous				85,272	63,181
Transfers to agency fund				-	(12,005)
Total general revenues				<u>7,451,194</u>	<u>7,633,253</u>
Change in net assets				534,298	248,470
Net assets - beginning				<u>118,490</u>	<u>(129,980)</u>
Prior period adjustment				22,529	-
Net assets - ending				<u>\$ 675,317</u>	<u>\$ 118,490</u>

## FUND FINANCIAL STATEMENTS



Breckenridge Community School District  
Balance Sheet  
Governmental Funds  
June 30, 2008, with Comparative Data

	Major Funds				Totals	
	General	Food Service	Athletics	Debt Service	2008	2007
<b>Assets</b>						
Cash and cash equivalents	\$ 1,163,966	\$ 117,729	\$ 2,073	\$ 124,541	\$ 1,408,310	\$ 1,143,977
Accounts receivable	9,967	-	-	-	9,967	613
Due from other funds	77,533	-	-	-	77,533	46,455
Due from other governmental units	1,288,326	2,329	-	-	1,290,655	1,241,293
Inventory	12,222	-	-	-	12,222	11,881
Prepaid expenses	79,896	625	-	-	80,521	161,506
Total assets	<u>\$ 2,631,910</u>	<u>\$ 120,683</u>	<u>\$ 2,073</u>	<u>\$ 124,541</u>	<u>\$ 2,879,207</u>	<u>\$ 2,605,725</u>
<b>Liabilities</b>						
Accounts payable	\$ 128,581	\$ 7,220	\$ 1,932	\$ -	\$ 137,733	\$ 115,168
Due to other funds	-	78,187	-	-	78,187	85,382
Accrued expenses	20,151	-	-	-	20,151	310,158
Accrued interest	44,321	-	-	-	44,321	40,968
Salaries payable	309,494	-	-	-	309,494	316,161
Payroll deductions and other withholdings	196,877	889	-	-	197,765	66,443
Short term note payable	1,400,000	-	-	-	1,400,000	1,300,000
Total liabilities	<u>2,099,425</u>	<u>86,295</u>	<u>1,932</u>	<u>-</u>	<u>2,187,652</u>	<u>2,234,280</u>
<b>Fund balance</b>						
Reserved for:						
Debt service	-	-	-	124,541	124,541	199,615
Inventory	12,222	-	-	-	12,222	11,881
Prepaid expenses	79,896	625	-	-	80,521	160,881
Unreserved, undesignated reported in:						
General fund	440,367	-	-	-	440,367	(11,139)
Athletics	-	-	141	-	141	-
Food service fund	-	33,763	-	-	33,763	10,207
Total fund balance	<u>532,485</u>	<u>34,388</u>	<u>141</u>	<u>124,541</u>	<u>691,555</u>	<u>371,445</u>
Total liabilities and fund balance	<u>\$ 2,631,910</u>	<u>\$ 120,683</u>	<u>\$ 2,073</u>	<u>\$ 124,541</u>	<u>\$ 2,879,207</u>	<u>\$ 2,605,725</u>

See accompanying notes to the financial statements.



Breckenridge Community School District  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets  
For the Year Ended June 30, 2008

Total fund balance - governmental funds	\$	691,555
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Add: Cost of capital assets	\$ 10,375,230	
Deduct: Accumulated depreciation	(5,549,612)	
		4,825,618

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Deduct: 2008 Refunding Bonds	(4,055,000)	
Deduct: Durant Issue	(89,785)	
Deduct: Compensated absences payable	(207,773)	
Deduct: Commercial Controls	(174,930)	
Deduct: Installment purchase agreements - MMNet	(172,723)	
Deduct: Retirement incentive payable	(120,000)	
Deduct: Accrued interest on long-term liabilities	(40,215)	
		(4,860,425)

Other amounts reported in the statement of activities that do not require current financial resources:

Add: Bond issuance costs (net of amortization)	109,399	
Deduct: Premium on bonds (net of amortization)	(90,831)	
		18,569

Total net assets - governmental activities	\$	675,317
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Breckenridge Community School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2008, with Comparative Data

	Major Funds				Totals	
	General	Food Service	Athletics	Debt Service	2008	2007
<b>Revenues</b>						
Local sources	\$ 556,870	\$ 88,183	\$ 42,198	\$ 491,313	\$ 1,178,564	\$ 1,140,669
State sources	6,837,209	14,495	-	-	6,851,704	7,094,910
Federal sources	298,398	162,722	-	-	461,121	467,482
Other sources	354,961	-	-	-	354,961	310,762
Total revenues	8,047,438	265,400	42,198	491,313	8,846,350	9,013,823
<b>Expenditures</b>						
Instruction						
Basic programs	3,593,119	-	-	-	3,593,119	3,902,925
Added needs	837,711	-	-	-	837,711	980,998
Adult / continuing education	127,810	-	-	-	127,810	126,134
Total instruction	4,558,640	-	-	-	4,558,640	5,010,057
Support services						
Pupil	304,679	-	-	-	304,679	308,957
Instructional staff	200,170	-	-	-	200,170	182,886
General administration	297,350	-	-	-	297,350	273,827
School administration	415,013	-	-	-	415,013	416,134
Business services	166,650	-	-	-	166,650	185,893
Operation and maintenance	892,661	-	-	-	892,661	816,475
Pupil transportation	502,997	-	-	-	502,997	492,140
Central	21,913	-	-	-	21,913	16,949
Other	6,125	-	-	-	6,125	6,950
Total support services	2,807,559	-	-	-	2,807,559	2,700,211
Food service	-	241,219	-	-	241,219	232,344
Athletics	-	-	203,745	-	203,745	173,704
Community services	8,584	-	-	-	8,584	26,991
Debt service						
Principal payments	-	-	-	218,618	218,618	161,142
Interest, fees and other	-	-	-	328,960	328,960	342,843
Debt issuance cost	-	-	-	110,820	110,820	-
Other	162,635	-	-	-	162,635	205,708
Total expenditures	7,537,418	241,219	203,745	658,398	8,640,779	8,853,000
Excess (deficiency) of revenues over expenditures	510,020	24,181	(161,546)	(167,085)	205,570	160,823
Other financing sources (uses)						
Proceeds from bonds	-	-	-	4,055,000	4,055,000	-
Transfer to escrow agent	-	-	-	(4,055,000)	(4,055,000)	-
Premium on bonds	-	-	-	92,010	92,010	-
Operating transfers in	-	-	161,687	-	161,687	121,077
Operating transfers (out)	(161,687)	-	-	-	(161,687)	(133,082)
Excess (deficiency) of revenues and other sources over expenditures	348,333	24,181	141	(75,074)	297,581	148,818
Fund balances - beginning	161,623	10,207	-	199,615	371,445	222,627
Prior period adjustment	22,529	-	-	-	22,529	-
Fund balances - ending	\$ 532,485	\$ 34,388	\$ 141	\$ 124,541	\$ 691,555	\$ 371,445

See accompanying notes to the financial statements.

Breckenridge Community School District  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$	297,581
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add:	Capital outlay	283,609
Deduct:	Depreciation expense	(241,933)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct:	Increase in accrual for compensated absences	(10,141)
Add:	Decrease in accrued interest on long term debt	14,879

Proceeds from long-term debt issuance is an other financial source in the governmental funds, but not in the statement of activities (where it increases long-term debt).

Deduct:	Proceeds from Commercial control systems debt	(199,920)
Deduct:	Proceeds from 2008 refunding bonds	(4,055,000)
Add:	1998 bonds refunded	4,175,000

Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

Add:	Commercial control systems debt	24,990
Add:	1993 bonds	98,618
Add:	MMNet installment debt	29,111
Add:	Early retirement incentive	98,935
Deduct:	Proceeds from premium	(92,010)

Other amounts reported in the statement of activities that do not require current financial resources

Add:	Amortization of premium	1,180
Deduct:	Amortization of bond issuance cost	(1,421)
Add:	Bond issuance cost	110,820

Change in net assets - governmental activities	\$	534,298
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Breckenridge Community School District  
Fiduciary Funds - Statement of Net Assets  
For the Years Ended June 30, 2008 and 2007

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Agency Fund

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 82,507	\$ 71,615
Due from other funds	<u>654</u>	<u>38,927</u>
Total assets	<u><u>\$ 83,161</u></u>	<u><u>\$ 110,542</u></u>
<b>Liabilities</b>		
Due to student and other groups	<u>\$ 83,161</u>	<u>\$ 110,542</u>
Total liabilities	<u><u>\$ 83,161</u></u>	<u><u>\$ 110,542</u></u>

## NOTES TO THE FINANCIAL STATEMENTS



## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Breckenridge Community School District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District.

### **Reporting Entity**

The District is governed by a seven member Board of Education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

### **District-wide and Fund Financial Statements**

The District-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the District-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items, including taxes and intergovernmental payments, not properly included among program revenues, are reported instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

District-wide Financial Statements - The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental funds:

The general fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The debt service fund is used to record tax, interest and other revenue for payment of principal and other expenditures on the long-term debt.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The school service funds are special revenue funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The District maintains full control of these funds. The school service funds maintained by the District are the athletic fund and food service fund.

Additionally, the District reports the following fund types:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net assets and results of operations are not included in the District-wide statements. Agency funds are custodial in nature (i.e. assets equal liabilities) and do not involve measurement of results of operations.

The District presently maintains a student activity fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

### **Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

### **Budgetary Data**

Budgets are adopted by the District for the general and special revenue funds. The budgets are adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level and control is exercised at the activity level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The District's deposits are in accordance with statutory authority.

### **Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan.

### **Property Tax Revenue**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and interest and penalties may be assessed by the collecting entity.

The taxable value for the District amounted to \$141,951,078, which includes \$28,354,466 attributable to non-homesteads. The District levied 18.0 mills for school general operations on the non-homestead taxable value, which totaled \$510,380. The District also levied an additional 3.4 mills on all property in the District for the purpose of debt service, which totaled \$482,634.



### State Aid Revenue

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

### Inventory

Inventories are valued at cost, on a first in, first out (FIFO) basis. Fund balance is reserved for the amount of inventories on hand as of June 30.

USDA donated commodities are recorded as a deferred revenue and inventory when received based on their fair market value as determined by the U.S. Department of Agriculture. Revenues and expenditures are then recognized when the commodities are used.

### Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the District-wide financial statements. Capital assets are defined by the District as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The District does not have infrastructure-type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the District-wide financial statements.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Computer & Related Equipment	5
Furniture & Equipment	5 – 20
Vehicles	8
Buildings & Improvements	10 – 50

## **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## **Compensated Absences**

The District's policy allows full time, non-teacher employees to accumulate an unlimited amount of vacation days, and to carry the accumulation for an indefinite time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense when vacation days are actually taken. Upon termination, no more than one year's accumulation will be paid to an employee and recognized as an expense. The vacation pay liability at June 30, 2008 is \$33,134.

Sick pay is accumulated at a rate of ten (10) days per year (maximum of 130 days) for teachers, administrators and twelve-month employees. Other employees accumulate sick days at a rate of nine (9) days per year. Amounts accumulated are to be paid to the employee and recognized as an expense when sick leave is actually taken. Upon termination of employment, all sick leave benefits are forfeited. Upon retirement, providing that notice is given to the Board of Directors by May 1st of the year in which retirement is planned, teachers with a minimum of twelve (12) years of service in the Breckenridge School District, and who are eligible to receive retirement benefits from MPERS, are paid sick leave at a rate of \$80 for each unused sick day. The sick pay liability at June 30, 2008 is \$174,639.

## **Long-Term Obligations**

In the District-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net assets.

## **Net Assets and Fund Balances**

Restricted net assets shown in the District-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the District-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

### Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental funds financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

### Net Assets – Restrictions

Net assets in the District-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

### **Unemployment Compensation**

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits charged against the District for the year. No provision has been made for possible future claims.

## **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Excess of Expenditures over Appropriations**

Budgets are adopted at the functional level and on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is not employed in governmental funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- Management is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

During the current year the District incurred expenditures in excess of the amounts budgeted as indicated in the budget comparison report as unfavorable variances.

Breckenridge Community School District  
Notes to the Financial Statements  
June 30, 2008

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**DETAIL NOTES**

**NOTE 3 - CASH AND CASH EQUIVALENTS**

At June 30, 2008, the carrying amount of the District's cash and cash equivalents was:

<b>Cash and Cash Equivalents</b>	<b>Amount</b>
Petty Cash	\$ 1,449
Deposits With Financial Institutions: Interest Bearing Checking, Savings, Money Market Accounts, Certificates of Deposit	1,406,861
Totals	\$ 1,408,310

At year-end, the carrying amount of the District's deposits was \$1,406,861 and the bank balance was \$1,532,315. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. See above for amount of deposits held by the District that are exposed to custodial credit risk because it is uninsured and uncollateralized.

**Custodial credit risk – investments.** For an investment, it is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

Breckenridge Community School District  
Notes to the Financial Statements  
June 30, 2008

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**NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS**

As of June 30<sup>th</sup>, due from other governmental units is comprised of the following amounts:

<b>Due From</b>	<b>Amount</b>
<b>General Fund:</b>	
State of Michigan – State Aid	\$ 1,243,802
Title I	10,105
Title II A	21,395
Mt. Pleasant Schools – Voc Ed Transportation	10,277
Other	2,747
<b>Hot Lunch Fund:</b>	
State of Michigan – State Aid	2,329
Totals	\$ 1,290,655

**NOTE 5 - ACCOUNTS RECEIVABLE**

These receivables consist of various amounts owed to the District that are due from non-governmental units.

**NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES**

The amounts of interfund receivables and payables at June 30<sup>th</sup> are as follows:

<b>Fund</b>	<b>Due From</b>	<b>Due To</b>
General Fund	\$ 77,533	\$ -
Food Service Fund	-	78,187
Agency Fund	654	-
Totals	\$ 78,187	\$ 78,187

**NOTE 7 - PREPAIDS**

Prepaid expenses represent payments for agreements that will benefit future periods.

Breckenridge Community School District  
Notes to the Financial Statements  
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**NOTE 8 - CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

<b>Capital Assets</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Buildings & Improvements	\$7,559,918	\$ 199,920	\$ -	\$ 7,759,838
Computer & Related Equipment	546,719	-	-	546,719
Furniture & Equipment	1,127,436	6,600	-	1,134,036
Vehicles	857,548	77,089	-	934,637
Total Capital Assets	10,091,621	283,609	-	10,375,230
<b>Accumulated Depreciation</b>				
Buildings & Improvements	(3,264,162)	(152,272)	-	(3,416,434)
Computer & Related Equipment	(545,875)	(422)	-	(546,297)
Furniture & Equipment	(799,646)	(41,050)	-	(840,696)
Vehicles	(697,996)	(48,189)	-	(746,185)
Total Accumulated Depreciation	(5,307,679)	(241,933)	-	(5,549,612)
<b>Net Capital Assets</b>	<b>\$4,783,942</b>	<b>\$ 41,676</b>	<b>\$ -</b>	<b>\$ 4,825,618</b>

Depreciation for the year ended June 30, 2008 totaled \$241,933. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 9 - ACCRUED EXPENSES**

Accrued expenses as of June 30<sup>th</sup> are as follows:

<b>Accrued Expenses</b>	<b>Amount</b>
FICA	\$ 3,919
Health Insurance	16,232
Totals	\$20,151

**NOTE 10 - ACCRUED WAGES**

Accrued wages as of June 30<sup>th</sup> consist mainly of the remaining balance owed on teacher contracts to be paid during the summer months. This also includes amounts earned by other employees as of year-end but not paid until after year-end.

#### **NOTE 11 - SHORT-TERM NOTE PAYABLE**

##### **STATE AID LOAN**

On August 20, 2007 the District borrowed \$1,400,000 in the form of a State Aid Note for the purpose of providing funds for school operations. The interest rate is stated at 3.68% and the maturity date is August 20, 2008.

On August 20, 2008 (after the end of the current fiscal year), the District borrowed \$1,400,000 in the form of a State Aid Note for the purpose of providing funds for school operations. The interest rate is stated at 1.70% and the maturity date is August 20, 2009.

#### **NOTE 12 - LONG-TERM DEBT**

The District issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds and refunding bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include compensated absences.

##### **2008 REFUNDING BONDS**

During the fiscal year ended June 30, 2008, the District advance refunded a general obligation bond issue with a general obligation bond refunding. The District issued \$4,055,000 of general obligation refunding bonds for the purpose of advance refunding a portion of the District's outstanding 1998 bonds and paying costs associated with the issuance of the bonds. The proceeds of the bonds, together with funds on hand, will be used to establish an escrow fund to provide for payment of principal and interest and redemption premiums on the prior bonds being refunded. The escrow fund will consist of cash and direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

The bonds are a full faith and credit unlimited tax general obligation of the District and the principal thereof and interest thereon will be payable from the proceeds of ad valorem taxes levied on all taxable property in the District without limitation as to rate or amount. The bonds are dated March 27, 2008.

A schedule of the bonds maturing each year is shown in the back of this report.

##### **INSTALLMENT PURCHASE**

On November 13, 2007, the District entered into a contract with Commercial Controls, Inc. for the purchase, installation and maintenance of a temperature control system. The total cost of the contract was \$199,920. The terms of the contract call for an initial payment of \$24,990 due upon acceptance of the contract and seven annual payments of \$24,990. There was no stated interest rate.

See payment schedule in the back of this report.

Breckenridge Community School District  
Notes to the Financial Statements  
June 30, 2008

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**1998 SCHOOL IMPROVEMENT (DURANT) BONDS**

As a result of the Durant Settlement, the District received \$304,118. One-half of the settlement (\$152,059) will be paid to the District in ten equal payments beginning in November 1998. These payments are recorded as revenue in the General fund when received.

The District elected to receive the balance of the settlement by participating in the bonding program. Consequently, the District borrowed \$152,059 from the School Loan Bond Fund and will make the annual principal and interest payments from the annual appropriation from the State of Michigan.

The State of Michigan is the only revenue source for making the annual debt service payments on the bonds. However, if the legislature fails to appropriate the funds, the District is under no obligation for payment.

Restrictions on the use of these funds are stated in the Revised School Code Part 17, Sections 1351 and include the following: school buses, electronic instructional material and software, textbooks, technology, infrastructure or infrastructure improvement, school security, training for technology, or to reduce or eliminate certain voter-approved debt.

For additional information see the payment schedule included in the back of this report.

**RETIREMENT INCENTIVE PAYABLE**

Ten individuals are currently participating in the early retirement incentive program offered by the District. Under this program, the individuals will receive annual payments ranging from \$8,700 to \$10,235 each through the year 2011. Total payments due by year are as follows:

<b>Year Ending June 30<sup>th</sup>,</b>	<b>Total Payments</b>
2009	\$ 50,000
2010	40,000
2011	30,000

**MMNET**

During the year ended June 30, 1999, the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). See additional disclosures regarding MMNET in these notes. As a member MMNET, the District was required to purchase a 12.5% undivided interest in various communication equipment and services. Therefore, the District entered into six separate installment purchase agreements for the purchase of the necessary equipment and services. Each purchase agreement has a stated interest rate of 5.68% and calls for equal, semi-annual payments.

The following is a summary of the installment purchase agreements:

<b>Vendor</b>	<b>Description</b>	<b>Cost</b>	<b>Annual Payment</b>
ITS Technologies, LLC	Data Electronics	\$ 17,380	\$ 1,769
I.T.I., Inc.	Voice Electronics	31,000	3,155
Integrated Systems Development	Miscellaneous Equip.	24,275	2,471
Integrated Systems Development	Telecommunications	34,375	3,405
FLI Communications Corp.	Video Electronics	58,600	5,964
Fiber Link, Inc.	Fiber Optical Filaments	236,268	23,402
Total		\$ 401,898	\$ 40,166

For additional information see the payment schedule included in the back of this report.



Breckenridge Community School District  
Notes to the Financial Statements  
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CHANGES TO LONG-TERM DEBT

The changes in long-term debt during the year ended June 30, 2008 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
1993 Bonds	\$ 98,618	\$ -	\$ (98,618)	\$ -	\$ -	\$ -
1998 Bonds	4,175,000	-	(4,175,000)	-	-	-
2008 Bonds	-	4,055,000	-	4,055,000	(360,000)	3,695,000
Durant Bonds	89,785	-	-	89,785	(8,463)	81,322
MMNET Loans	201,833	-	(29,110)	172,723	(30,789)	141,934
Early Retirement Inc.	218,935	-	(98,935)	120,000	(50,000)	70,000
Commercial Controls	-	199,920	(24,990)	174,930	(24,990)	149,940
Compensated abs.	197,632	10,141	-	207,773	-	207,773
Total	\$ 4,981,803	\$ 4,265,061	\$ (4,426,653)	\$ 4,820,211	\$ (474,242)	\$ 4,345,969

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2008, including interest of \$1,112,870 are as follows:

Fiscal Year Ending June 30,	Amount
2009	\$ 590,717
2010	511,616
2011	574,647
2012	510,325
2013	497,023
2014	437,590
2015	429,990
2016	387,200
2017	369,600
2018	352,200
2019	335,000
2020	313,000
2021	296,400

## **NOTE 13 - EMPLOYEE RETIREMENT SYSTEM**

### Plan Description

The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, defined benefit pension plan administered by the nine-member board of MPERS. MPERS provides retirement benefits and postretirement benefits for health, dental, and vision. MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS.

A copy of this report can be requested by calling (989) 322-6000 or by writing to:

Michigan Public School Employees' Retirement System  
P.O. Box 30171  
Lansing, MI 48909-7671

### Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 17.74% of payroll. The contribution requirements of plan members and the District are established, and may be amended by, the MPERS Board of Trustees. The District's contributions to MPERS for the years ended June 30, 2008, 2007, and 2006, were \$720,377, \$788,838, and \$774,763, respectively, which is equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits; it is the responsibility of the State of Michigan.

### Other Post Employment Benefits

Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these overages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

**NOTE 14 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District participates in the SET/SEG risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The District has purchased commercial insurance for medical claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through commercial insurance during the past year.

**NOTE 15 - TRANSFERS**

The general fund transferred \$161,687 to the athletic fund during the 2008 fiscal year for operating expenses.

**NOTE 16 - JOINT VENTURE**

During the year ended June 30, 1999 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). As a member of MMNET, the District was required to purchase a 12.5% undivided interest in various communication equipment and services as well as pay for annual administrative cost incurred by Gratiot-Isabella RESD, the administrative agent. Information regarding the purchase of equipment and services is shown in the above notes.

The MMNET Consortium was established by a previously approved inter local Consortium Agreement among the following entities: Beal City Public Schools, Breckenridge Community Schools, Clinton County RESA, Central Montcalm Public Schools, DeWitt Public Schools, Fulton Schools, Gratiot-Isabella RESD, Ovid-Elsie Area Schools, and St. Johns Public Schools.

The purpose of MMNET is to provide for interactive voice/video/data interconnections and services required for, or useful in, the instruction and training of students and other persons utilizing the participant services, the conducting of research, or the administrative operations of the participants; and to enable the participants to cooperatively share their resources for the ownership, financing, installation, administration and operation of MMNET.

Additional information on MMNET, including separate financial statements, is available by contacting the fiscal agent at:

Gratiot-Isabella Regional Education Service District  
1131 East Center Street  
Ithaca, Michigan 48847  
Phone: 989-875-5101

**REQUIRED SUPPLEMENTAL INFORMATION**

**BUDGETARY COMPARISON SCHEDULE**



Breckenridge Community School District  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Local sources	\$ 526,575	\$ 558,142	\$ 556,870	\$ (1,272)
State sources	6,827,390	6,826,836	6,837,209	10,373
Federal sources	245,505	308,086	298,398	(9,688)
Other sources	303,125	316,125	354,961	38,836
Total revenues	7,902,595	8,009,189	8,047,438	38,249
<b>Expenditures</b>				
Instruction				
Basic programs	3,572,824	3,626,297	3,593,119	33,178
Added needs	966,226	963,695	837,711	125,984
Adult / continuing education	134,352	134,801	127,810	6,991
Total instruction	4,673,402	4,724,793	4,558,640	166,153
Support services				
Pupil	252,175	231,496	304,679	(73,183)
Instructional staff	194,592	204,259	200,170	4,089
General administration	358,845	365,082	297,350	67,732
School administration	443,361	435,896	415,013	20,883
Business services	124,225	105,225	166,650	(61,425)
Operation and maintenance	851,393	924,643	892,661	31,982
Pupil transportation	471,572	425,986	502,997	(77,011)
Central	19,000	22,000	21,913	87
Other	7,200	7,200	6,125	1,075
Total support services	2,722,363	2,721,787	2,807,559	(85,772)
Community services	8,536	9,343	8,584	759
Debt service			-	-
Other	480,952	481,636	162,635	319,001
Total expenditures	7,885,253	7,937,559	7,537,418	400,141
Excess (deficiency) of revenues over expenditures	17,342	71,630	510,020	438,390
Other financing sources (uses)				
Operating transfers out	-	-	(161,687)	(161,687)
Excess (deficiency) of revenues and other sources over expenditures	17,342	71,630	348,333	276,703
Fund balances - beginning	184,152	184,152	184,152	-
Fund balances - ending	\$ 201,494	\$ 255,782	\$ 532,485	\$ 276,703

Breckenridge Community School District  
 Budgetary Comparison Schedule for the Food Service Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Local sources	\$ 87,500	\$ 87,500	\$ 88,183	\$ 683
State sources	12,000	12,000	14,495	2,495
Federal sources	160,600	160,600	162,722	2,122
Total revenues	260,100	260,100	265,400	5,300
<b>Expenditures</b>				
Food service	260,100	260,100	241,219	18,881
Excess (deficiency) of revenues over expenditures	-	-	24,181	24,181
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures	-	-	24,181	24,181
Fund balances - beginning	10,207	10,207	10,207	-
Fund balances - ending	<u>\$ 10,207</u>	<u>\$ 10,207</u>	<u>\$ 34,388</u>	<u>\$ 24,181</u>

Breckenridge Community School District  
 Budgetary Comparison Schedule for the Athletic Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Local sources	\$ 30,000	\$ 30,000	\$ 42,198	\$ 12,198
Total revenues	30,000	30,000	42,198	12,198
<b>Expenditures</b>				
Athletics	221,336	221,336	203,745	17,591
Excess (deficiency) of revenues over expenditures	(191,336)	(191,336)	(161,546)	29,790
Other financing sources (uses)				
Operating transfers in	191,336	191,336	161,687	(29,649)
Excess (deficiency) of revenues and other sources over expenditures	-	-	141	141
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ 141	\$ 141

**OTHER SUPPLEMENTAL INFORMATION**





Breckenridge Community School District  
General Fund  
Balance Sheet  
June 30, 2008 and 2007

	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 1,163,966	\$ 981,828
Accounts receivable	9,967	613
Due from other funds	77,533	455
Due from other governmental units	1,288,326	1,238,901
Inventory	12,222	11,881
Prepaid expenses	79,896	160,881
	<hr/>	<hr/>
Total assets	\$ 2,631,910	\$ 2,394,559
	<hr/>	<hr/>
<b>Liabilities</b>		
Accounts payable	\$ 128,581	\$ 115,168
Due to other funds	-	84,927
Accrued expenses	20,151	309,269
Accrued interest	44,321	40,968
Salaries payable	309,494	316,161
Payroll deductions and other withholdings	196,877	66,443
Short term note payable	1,400,000	1,300,000
	<hr/>	<hr/>
Total liabilities	2,099,425	2,232,936
	<hr/>	<hr/>
<b>Fund balance</b>		
Reserved for:		
Inventory	12,222	11,881
Prepaid expenses	79,896	160,881
Unreserved	440,367	(11,139)
	<hr/>	<hr/>
Total fund balance	532,485	161,623
	<hr/>	<hr/>
Total liabilities and fund balance	\$ 2,631,910	\$ 2,394,559
	<hr/>	<hr/>

Breckenridge Community School District  
General Fund  
Statement of Revenues  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Local sources</b>		
Property taxes	\$ 496,805	\$ 482,623
Interest	28,337	24,059
Contributions	-	-
Recreation fees	180	488
After school program	7,996	9,196
Other local revenues	23,552	29,445
Total local sources	556,870	545,811
<b>State sources</b>		
General state aid	6,356,294	6,613,264
Categorical:		
Special education	209,180	191,426
At risk	190,744	169,173
Vocational education	11,386	34,851
Durant settlement	15,206	15,206
School readiness	54,400	52,800
Total state sources	6,837,209	7,076,720
<b>Federal sources</b>		
Title I	169,428	199,902
Drug free	2,169	2,013
Medicaid	61,984	46,348
Technology literacy challenge	1,590	1,950
Title V, LEA allocation	997	214
Improving teacher quality	60,147	59,069
Other	2,083	-
Total federal sources	298,398	309,496
<b>Other sources</b>		
Other governmental units		
County special education tax	301,398	268,861
Voc ed mileage	10,277	18,196
Other	43,286	15,486
Total other sources	354,961	302,543
Total general fund revenues	<u>\$ 8,047,438</u>	<u>\$ 8,234,570</u>

Breckenridge Community School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Instruction</b>		
Basic programs		
Elementary		
Salaries	\$ 1,155,328	\$ 1,072,062
Employee benefits	580,942	595,385
Purchased services	3,644	3,175
Supplies, materials and other	26,103	25,545
Total elementary	1,766,018	1,696,167
Middle/junior high		
Salaries	488,011	524,476
Employee benefits	271,852	326,479
Purchased services	1,073	985
Supplies, materials and other	10,983	43,591
Total middle school	771,919	895,531
High school		
Salaries	611,779	692,473
Employee benefits	348,627	490,019
Purchased services	17,080	15,158
Supplies, materials and other	38,741	39,932
Total high school	1,016,227	1,237,582
Readiness program		
Salaries	19,193	46,909
Employee benefits	16,815	24,651
Purchased services	175	154
Supplies, materials and other	2,773	1,931
Total readiness program	38,956	73,645
Total basic programs	3,593,119	3,902,925
Added needs		
Special education		
Salaries	311,720	311,752
Employee benefits	140,305	157,499
Purchased services	3,493	1,464
Supplies, materials and other	2,011	4,142
Total special education	457,529	474,857

Breckenridge Community School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Instruction (continued)</b>		
Added needs (continued)		
Title I		
Salaries	\$ 122,631	\$ 135,868
Employee benefits	43,327	48,834
Purchased services	55	475
Supplies, materials and other	1,010	454
Total Title I	167,023	185,631
Vocational education		
Salaries	68,357	130,837
Employee benefits	38,099	68,492
Purchased services	1,565	1,086
Supplies, materials and other	7,722	11,216
Total vocational education	115,744	211,631
At risk		
Salaries	70,949	70,996
Employee benefits	26,364	37,883
Purchased services	-	-
Supplies, materials and other	102	-
Total at risk	97,415	108,879
Total added needs	837,711	980,998
Adult / continuing education		
AIM program		
Salaries	90,839	88,198
Employee benefits	36,971	37,936
Purchased services	-	-
Total adult / continuing education	127,810	126,134
Total instruction	4,558,640	5,010,057

Breckenridge Community School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Support services</b>		
Pupil services		
Guidance services		
Salaries	\$ 72,446	\$ 71,504
Employee benefits	33,845	37,515
Purchased services	289	25
	<u>106,579</u>	<u>109,044</u>
Total guidance services		
Speech Pathology		
Salaries	49,216	47,354
Employee benefits	26,813	27,610
Purchased services	217	-
Supplies, materials and other	263	458
	<u>76,509</u>	<u>75,422</u>
Total speech pathology		
Other pupil services		
Salaries	97,659	99,370
Employee benefits	23,931	25,121
	<u>121,590</u>	<u>124,491</u>
Total other pupil services		
Total pupil services	<u>304,679</u>	<u>308,957</u>
Instructional staff		
Educational media services		
Salaries	65,801	66,034
Employee benefits	26,104	28,686
Purchased services	600	690
Supplies, materials and other	5,941	7,407
	<u>98,445</u>	<u>102,817</u>
Total educational media services		
Technology assisted instruction		
Salaries	13,781	13,781
Employee benefits	6,570	7,372
Purchased services	44,792	35,443
Supplies, materials and other	36,582	23,473
	<u>101,725</u>	<u>80,069</u>
Total technology assisted instruction		
Total instructional staff	<u>200,170</u>	<u>182,886</u>

Breckenridge Community School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
General administration		
Board of education		
Salaries	\$ 16,202	\$ 3,500
Purchased services	15,778	20,629
Supplies, materials and other	12,345	14,085
	<u>44,326</u>	<u>38,214</u>
Total board of education		
Executive administration		
Salaries	154,992	158,959
Employee benefits	84,083	66,698
Purchased services	4,791	3,456
Supplies, materials and other	9,159	6,500
	<u>253,025</u>	<u>235,613</u>
Total executive administration		
Total general administration	<u>297,350</u>	<u>273,827</u>
School administration		
Offices of the principals		
Salaries	288,496	301,936
Employee benefits	117,552	105,046
Purchased services	2,646	1,508
Supplies, materials and other	6,320	7,644
	<u>415,013</u>	<u>416,134</u>
Total school administration		
Business services		
Fiscal services		
Salaries	42,834	61,673
Employee benefits	22,270	25,181
Purchased services	-	-
Supplies, materials and other	1,039	454
	<u>66,143</u>	<u>87,308</u>
Total fiscal services		
Internal services		
Salaries - switchboard	-	-
Employee benefits	-	-
Supplies, materials and other	7,994	11,613
	<u>7,994</u>	<u>11,613</u>
Total internal services		

Breckenridge Community School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
Business services		
Other business services		
Workmen's compensation	\$ 20,038	\$ 12,552
Unemployment compensation	4,891	2,581
Other insurance	-	12,225
Interest	54,690	50,077
Taxes abated and written off	12,895	9,537
	<u>92,514</u>	<u>86,972</u>
Total other business services		
	<u>92,514</u>	<u>86,972</u>
Total business services	<u>166,650</u>	<u>185,893</u>
Operation and maintenance		
Salaries	235,300	250,963
Employee benefits	132,868	126,888
Purchased services	467,344	396,795
Supplies, materials and other	57,149	41,829
	<u>892,661</u>	<u>816,475</u>
Total operation and maintenance		
	<u>892,661</u>	<u>816,475</u>
Pupil transportation		
Salaries	192,386	225,645
Employee benefits	79,121	75,173
Purchased services	16,621	55,690
Supplies, materials and other	131,179	79,170
Capital outlay	83,689	57,831
	<u>502,997</u>	<u>493,509</u>
Total pupil transportation		
	<u>502,997</u>	<u>493,509</u>
Central		
Communication services		
Purchased services	15,209	10,045
Data processing		
Purchased services	<u>6,704</u>	<u>6,904</u>
Total central	<u>21,913</u>	<u>16,949</u>

Breckenridge Community School District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
Other support services		
Purchased services	\$ 6,125	\$ 6,950
Total support services	2,807,559	2,701,580
<b>Community services</b>		
Direction		
Salaries	-	13,565
Employee benefits	-	6,477
Total direction	-	20,042
Recreation		
Salaries	5,326	5,898
Purchased services	1,439	-
Supplies, materials and other	1,819	1,051
Total recreation	8,584	6,949
Total community services	8,584	26,991
<b>Outgoing transfers and other transactions</b>		
Transfers to other funds		
Student activities	-	12,005
Athletics	161,687	121,077
Total transfers to other funds	161,687	133,082
Other transactions		
Leases	29,503	49,627
MMNET	51,465	53,409
Voc ed tuition	81,667	142,839
Total other transactions	162,635	245,875
Total general fund expenditures	\$ 7,699,105	\$ 8,117,585



Breckenridge Community School District  
Food Service Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2008 and 2007

	Totals	
	2008	2007
<b>Revenues</b>		
Local sources		
Student lunches	\$ 62,804	\$ 65,244
Adult lunches	358	470
Ala-carte	23,691	22,551
Interest	228	495
Miscellaneous	1,102	54
Total local sources	88,183	88,814
State sources		
School lunch program	14,495	18,190
Total state sources	14,495	18,190
Federal sources		
National school lunch program	146,845	148,048
USDA donated commodities	15,878	9,938
Total federal sources	162,722	157,986
Total revenues	265,400	264,990
<b>Expenditures</b>		
Salaries	76,770	81,209
Benefits	23,469	28,399
Purchased services	2,925	7,062
Supplies, materials and other	138,010	115,674
Capital outlay	45	-
Total expenditures	241,219	232,344
Excess (deficiency) of revenues and other sources over expenditures	24,181	32,646
Fund balances - beginning	10,207	(22,439)
Fund balances - ending	\$ 34,388	\$ 10,207

Breckenridge Community School District  
Athletics Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2008 and 2007

	Totals	
	2008	2007
<b>Revenues</b>		
Local sources		
Gate receipts	\$ 42,198	\$ 52,627
Total revenues	42,198	52,627
<b>Expenditures</b>		
Salaries	66,258	96,157
Benefits	20,126	24,920
Purchased services	60,986	-
Supplies, materials and other	56,374	52,627
Total expenditures	203,745	173,704
Excess (deficiency) of revenues and other sources over expenditures	(161,546)	(121,077)
Other financing sources (uses)		
Operating transfers in	161,687	121,077
Excess (deficiency) of revenues and other sources over expenditures	141	-
Fund balances - beginning	-	-
Fund balances - ending	\$ 141	\$ -

Breckenridge Community School District  
Debt Service Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2008 and 2007

	Totals	
	2008	2007
<b>Revenues</b>		
Local sources		
Property tax	\$ 482,913	\$ 459,853
Interest on investments	1,345	1,783
Other revenue	7,055	-
Total revenues	491,313	461,636
<b>Expenditures</b>		
Outgoing transfers and other transactions		
Principal - 1998 bonds	120,000	35,000
Principal - 1993 bonds	98,618	105,947
Bond issuance costs	110,820	-
Interest and other charges - 1998 bonds	192,678	192,449
Interest and other charges - 1993 bonds	136,282	129,053
Total expenditures	658,398	462,449
Excess (deficiency) of revenues over expenditures	(167,085)	(813)
Other financing sources (uses)		
Premium on bonds	92,010	-
Proceeds from bonds	4,055,000	-
Transfer to escrow agent	(4,055,000)	-
Excess (deficiency) of revenues and other sources over expenditures	(75,074)	(813)
Fund balances - beginning	199,615	200,428
Fund balances - ending	\$ 124,541	\$ 199,615

Breckenridge Community School District  
Schedule of Long-Term Debt  
For the Year Ended June 30, 2008

For the Year Ended June 30, 2008					
Fiscal Year	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
2008 Refunding Bonds - \$4,055,000					
2009	3.25	\$ 360,000	\$ 89,219	\$ 75,041	\$ 524,260
2010	3.25	305,000	69,194	69,194	443,388
2011	3.25	315,000	64,238	64,238	443,476
2012	3.25	320,000	59,119	59,119	438,238
2013	3.25	315,000	53,919	53,919	422,838
2014	4.00	315,000	48,800	48,800	412,600
2015	4.00	320,000	42,500	42,500	405,000
2016	4.00	315,000	36,100	36,100	387,200
2017	4.00	310,000	29,800	29,800	369,600
2018	4.00	305,000	23,600	23,600	352,200
2019	4.00	300,000	17,500	17,500	335,000
2020	4.00	290,000	11,500	11,500	313,000
2021	4.00	285,000	5,700	5,700	296,400
Total 1998 Refunding Bonds		\$ 4,055,000	\$ 551,189	\$ 537,011	\$ 5,143,200

Breckenridge Community School District  
Schedule of Long-Term Debt  
For the Year Ended June 30, 2008

Fiscal Year	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
Durant Issue - \$152,058					
2009	4.76	\$ 8,463	\$ -	\$ 2,215	\$ 10,678
2010	4.76	8,865	-	1,813	10,678
2011	4.76	52,536	-	19,208	71,744
2012	4.76	9,729	-	949	10,678
2013	4.76	10,192	-	485	10,677
Total Durant issue		\$ 89,785	\$ -	\$ 24,670	\$ 114,455

The State School Aid Act, as amended by Public Act 142 of 1997 provided appropriations as part of a settlement to school districts involved in the Durant litigation as well as schools not involved in the litigation. The Michigan Municipal Bond Authority (MMBA) issued bonds for those districts that elected to receive a lump sum amount from the MMBA rather than receive part of the settlement in fifteen annual payments.

As part of the Executive Budget Recommendation for FY 2007, the bonds were "refunded". To accomplish that, the debt service payment schedules for applicable districts, including Breckenridge School District, have changed. However, the refunding did not change the total payments for any of the districts.

**Commercial Controls - \$199,920**

2009	-	\$ 24,990	\$ -	\$ -	\$ 24,990
2010	-	24,990	-	-	24,990
2011	-	24,990	-	-	24,990
2012	-	24,990	-	-	24,990
2013	-	24,990	-	-	24,990
2014	-	24,990	-	-	24,990
2015	-	24,990	-	-	24,990
Total Commercial Controls		<u>\$ 174,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,930</u>

Breckenridge Community School District  
Schedule of Long-Term Debt  
For the Year Ended June 30, 2008

Fiscal Year Ending June 30th,	ITS Technologies	ITI Inc.	Integrated Systems Development Loan 1	Integrated Systems Development Loan 2	FLI Communi- cations	Fiber Link Inc.	Totals
<b>Installment purchase agreements - MMNet</b>							
Principal	\$ 16,926	\$ 30,190	\$ 32,579	\$ 23,641	\$ 57,069	\$ 223,920	\$ 384,325
2008	7,607	13,568	14,641	10,625	25,648	100,634	172,723
2009	6,251	11,149	12,031	8,731	21,076	82,696	141,934
2010	4,817	8,592	9,271	6,728	16,241	63,725	109,374
2011	3,300	5,886	6,352	4,610	11,128	43,661	74,937
2012	1,696	3,026	3,265	2,369	5,720	22,442	38,518
2013	-	-	-	-	-	-	-

The interest rate is stated at 5.68% for all of the MMNET related installment purchase agreements.

The annual principal and interest payments by individual loan are shown in the notes to the financial statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
Breckenridge Community School District  
Breckenridge, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breckenridge Community School District (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the District in a separate letter dated October 10, 2008.

Breckenridge Community School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

October 10, 2008



**Finding 2008-1**

Criteria

School Districts are required to issue financial statements that are prepared in accordance with Generally Accepted Accounting Principles (GAAP). Responsibility for the financial statements rest with the District's management. The preparation of the financial statements in accordance with GAAP requires internal controls over both 1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and 2) reporting District-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Effect

The District relies on the independent auditors for assistance with the preparation of annual financial statements and related notes in accordance with GAAP.

Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and related footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Recommendation

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Response

The District is aware of this deficiency and believes it is not cost beneficial in their situation to develop this expertise. They will continue to use the external auditors for this technical assistance and they expect this situation to be ongoing in future years.



## MANAGEMENT LETTER

Breckenridge Community School District  
Breckenridge, Michigan

In planning and performing our audit of the financial statements for Breckenridge Community School District (the District) for the fiscal year ended June 30, 2008, we considered the District's internal control in determining our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for the District to strengthen internal controls and operating efficiency. The following pages that accompany this letter summarize our comments and recommendations regarding those matters. This letter does not affect our audit report dated October 10, 2008 on the financial statements of Breckenridge Community School District.

We will review the status of these comments during our next audit engagement. We have discussed these comments and recommendations with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Breckenridge Community School District, management, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Sincerely,

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

October 10, 2008

Breckenridge Community School District  
Management Letter

**STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS**

We were pleased to see that management has implemented some of the recommendations we included in our previously issued Management Letter.

We have listed below the comments and related recommendations we included in our previously issued Management Letter in which the recommendations we suggested, or an appropriate alternative, have not been fully implemented as of the date of this report.

**Due Between Funds**

*Prior Year Comment and Recommendation*

During our audit we found that the interfund receivables and payables were not reconciled. We recommend that management reconcile these accounts each month before processing the next month's activity.

*Current Status*

The recommendation we suggested in our previously issued Management Letter had not been implemented as of the end of the 2008 fiscal year.

**Account Reconciliations and Periodic Reviews**

*Prior Year Comment and Recommendation*

In order to make the financial reports generated by the accounting system as meaningful as possible, management should reconcile significant general ledger accounts to supporting documentation on a monthly basis.

In addition to the above mentioned reconciliations, management should periodically scan the general ledger activity and ending balances for all accounts to identify any unusual items. Once identified, these items should be investigated and the appropriate adjustments made.

Although the monthly reconciliations are being performed on the significant accounts it appears that the periodic reviews are not being performed and adjustments made in a timely manner. Therefore, we recommend that management conduct periodic reviews of the general ledger and make the necessary adjustments so that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

*Current Status*

The recommendation we suggested in our previously issued Management Letter has not been fully implemented as of the end of the 2008 fiscal year.

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

### **Budget Enforcement and Monitoring**

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on variances between final budget and actual for total revenues, total expenditures, total net other financing sources and uses, and ending fund balance that exceed 1% of the respective budgeted amounts. The Department of Education will be issuing letters to school board presidents, superintendents and chief business officials when they identify these types of violations.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a District's actual revenues were less than budgeted revenues and, at the same time, reduced the District's fund balance beyond what was approved by the school board.

We recommend you continue to review your budget amendments during the year in light of the above changes to the Department of Education's focus regarding enforcement and monitoring of budget violations.

### **Uninsured Bank Deposits**

During recent months the financial market has seen significant fluctuations leading many to question the security and availability of bank deposits held in financial institutions. Although most banks insure deposits through the Federal Deposit Insurance Corporation (FDIC), there are limits to that coverage.

As of October 3, 2008, it is our understanding that the current limits for FDIC insured balances are \$250,000 per entity per financial institution. Governmental units may also request certain funds be collateralized by the bank. There are also other options regarding the investment of surplus funds including investment pools, treasury investments, and commercial paper.

We are not investment advisors. However, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review your investment policies to ensure it continues to satisfy the District's goals.

### **Credit Card Policy**

Public Act 266 of 1995 authorizes the use of credit cards by local units of government for appropriate expenses and sets specific criteria which must be followed. During our review of this policy we found that some of required provisions were missing.

A copy of the required provisions for the policy was provided to management. We recommend that the District incorporates the missing provisions into the existing credit card policy.

In addition, one credit card has a credit line of \$35,000 and an available cash advance of \$12,500. We recommend that the cash advance option be removed and the credit line be reduced to a more appropriate level.

Breckenridge Community School District  
Management Letter

### **Bank Statements and Reconciliations**

We recommend that a member of management, other than the preparer, review all completed bank reconciliations on a monthly basis. This review should include scanning the reconciling items for any unusual items and tracing the reconciled balance to the financial statements.

At the same time we also recommend that the reviewer open the bank statements and review them for any unusual transactions. The review of the bank statement will ensure that unusual items are investigated on a timely basis.

All reconciliations should be signed and dated by employees preparing them as well as by the reviewers. As a prompt to the preparer and reviewer/approver to sign the reconciliation, preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

These procedures should be performed monthly and added to the accounting policies.

### **Payroll Approvals**

During our test of payroll we found that the timesheets submitted by substitute bus drivers do not include the supervisor's approval.

We recommend that the District add a line to the timesheets for the supervisor to sign/initial and date to document their approval.